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Staff Country Reports

**Benin: Joint Staff Advisory Note on the Poverty Reduction Strategy Paper—
Annual Progress Report**

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper Annual Progress Report for Benin, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) Annual Progress Report to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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INTERNATIONAL MONETARY FUND
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

BENIN

**Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
Annual Progress Report**

Prepared by the Staffs of the International Monetary Fund (IMF) and
the International Development Association (IDA)

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I. OVERVIEW

1. **Benin's Poverty Reduction Strategy Paper (PRSP) was adopted by the Government in September 2002 and updated in April 2007¹.** The updated strategy paper (PRSP II, also called the Growth Strategy for Poverty Reduction, *SCRIP*) emphasizes the acceleration of private sector-led growth as a means to reduce poverty and lift Benin to emerging-economy status. The related Joint Staff Advisory Note (JSAN) concluded that the PRSP II provides a good framework for implementing the Government's growth and poverty reduction agenda over the next three years.

2. **This JSAN reviews the latest Annual Progress Report (APR) on the implementation of the poverty reduction strategy (PRS).** The APR (hereafter the Report) assesses progress in implementing the strategy during 2006 and the first half of 2007². It was discussed during the PRSP annual review in September 2007 and officially shared with the IMF and the Bank in February 2008.

3. **The APR indicates that significant progress has been made in strengthening the macroeconomic framework.** It notes in particular (i) the rebound in economic activity since 2006³, concurrent easing of inflation and observance of several WAEMU convergence criteria in 2007; and (ii) continued fiscal consolidation and clearance of domestic arrears to the private sector in early 2007. However, the Report rightly points out that Benin's growth performance had fallen short of expectations due to delays in implementing crucial supporting structural reforms and that further efforts are needed to accelerate growth. In particular, raising growth rates to a level consistent with

¹ The PRSP II, covering the period 2007-2009, and its JSAN was discussed by the Boards of the Bank and the IMF in June 2007.

² Although the APR intended to cover the period January 2006 – June 2007, the report is mainly based on developments and data pertaining to 2006 during which the Government's program continued to be guided by the first PRSP while PRSP II, launched and drafted in 2006, was formally adopted in April 2007.

³ Economic growth strengthened further, to 4.6 percent, in 2007.

achieving the MDGs would require the completion of reforms to revitalize the cotton sector and public utilities and the promotion of a more dynamic private sector.

4. **Despite these achievements on the macroeconomic front, the Report notes mixed progress on the social front.** The APR highlights some improvement in social indicators but indicates that, at current pace, Benin would not be able to reach all the MDG targets by 2015. In particular, the country is unlikely to meet the health MDGs (especially the infant and maternal mortality goals) without enhanced targeted measures and sharp acceleration of current trends. The gender-related MDG targets would also be difficult to achieve without substantial progress. Overall, enhancing economic growth, further strengthening the country's implementation capacity, and substantially scaling up aid will be required for Benin to meet the majority of the MDGs.

5. **Overall, staffs believe that the policy-framework set by the PRS remains appropriate for achieving the country's development outcomes but strong measures need to be swiftly carried out to address key obstacles to effective implementation of the PRS and achievement of the MDGs.** In particular, staffs urge the authorities to properly address the issue of capacity so as to accelerate reforms implementation and improve prioritization of programs and policies and their links with the budget to ensure an effective implementation of the poverty reduction strategy. Staffs also recommend that decisive actions be taken to strengthen national statistical capacity for sound and efficient monitoring of the implementation of the PRS. Finally, staffs welcome the significant efforts made by the Government in strengthening the consultation process and disseminating the APR to key stakeholders, in particular to civil society⁴ but believe that timely preparation of the APRs would increase their effectiveness in providing useful feedback into the budget preparation process. The Government's decision to shorten the preparation time of the APR to achieve a closer integration of the PRS monitoring and evaluation process with the policy cycle constitutes a positive step.⁵

II. PROGRESS IN IMPLEMENTING THE PRS

A. Economic Performance and Macroeconomic Policies

6. **The APR adequately describes progress made in strengthening the macroeconomic framework in 2006, but does not cover measures taken by the Government to address rising food and fuel prices⁶.** It indicates that economic performance has improved with real GDP growth recovering from 2.9 percent in 2005 to 3.8 percent in 2006 while inflation was broadly contained,

⁴ The APR was prepared through broad-based consultations with domestic and external partners and discussed at a conference held in September 2007 by a large public including government officials, civil society and private sector representatives and development partners.

⁵ Under the revised protocol signed between the Minister of Economy and Finance and the budget support donors, the APR should be available to the donors at least 15 days before the joint Government-Donors annual review on the implementation of the PRS in June. This timetable would allow taking into account the main findings of the APR and more importantly the conclusions from the PRS annual review during the preparation of the annual budget for the following year.

⁶ A discussion of the fiscal and balance of payments repercussions of the crisis is provided in IMF Country Report No. CR/08/230.

falling under the WAEMU convergence criterion of 3 percent in 2007 despite sharp increases in the international prices of oil and key food items. However, it notes that the growth rates are below the PRS targets and short of levels consistent with meeting the MDGs. The Report also notes that the fiscal situation has continued to improve thanks to strong revenue performance. The slight increase in fiscal revenue—from 16.4 percent of GDP in 2004 to 16.8 percent of GDP in 2006—was mainly underpinned by improvements in the efficiency of tax and customs administrations. Combined with lower than projected investment expenditures, the enhanced revenue performance permitted observance of the WAEMU convergence criterion on the basic fiscal balance, which recorded a small surplus in 2006, and a significant reduction of the overall fiscal deficit to 2.6 percent of GDP, from 4.6 percent in 2005. The APR could have usefully covered financial sector issues that could affect the sustainability of growth, including the high level of non-performing loans and the need to improve bank compliance with prudential ratios, to strengthen financial sector surveillance, and to enhance the quality of financial services and facilitate access to these for medium- and small-scale enterprises. Similarly, the APR could have discussed the country's debt management strategy and its role in the overall development agenda; in the post HIPC-MDRI era, it could also have discussed Benin's record with regard to aid effectiveness. The debt strategy will, indeed, play a crucial role in preserving debt sustainability over time. Debt relief received from enhanced HIPC and MDRI, plus additional bilateral debt forgiveness, reduced the country's external debt to around 12 percent of GDP at end-2006.

7. **Macroeconomic policies were broadly in line with PRS priorities and promoted macroeconomic stability**⁷. The authorities continued pursuing prudent financial policies, consistent with the objectives of the growth and stability pact under the WAEMU. To secure increased fiscal space for higher pro-growth and pro-poor spending, they stepped up efforts to enhance the efficiency of fiscal and customs administration, with a focus on measures to streamline operation of the large- and medium-size taxpayers units, combat fiscal and customs fraud, and enhance the IT capacity of the revenue agencies. The authorities also endeavored to better enforce expenditure execution procedures. Consequently, as noted above, further fiscal consolidation was achieved, domestic arrears were cleared, and more generally, fiscal policy contributed to enhancing Benin's recent gains in macroeconomic stabilization. However, major challenges remain. In particular, the authorities will need to improve absorption capacity and strengthen public financial management to make effective use of expanding fiscal space while preserving fiscal and debt sustainability.

8. **The APR could have discussed the repercussions of delayed structural reforms on competitiveness, in the face of rising international prices for oil and food items, and lower than anticipated cotton production.** By failing to complete the its structural reform program, opportunities for increased productivity and private investment in the cotton, energy and telecoms sectors have been reduced; and significant competitiveness gains and related growth benefits missed. Alternative scenarios highlighting the macroeconomic implications of delays in implementing reforms and the impact of the delays on the effectiveness of the PRS would have been useful; the macroeconomic framework could have been updated accordingly⁸. Integration of these elements, along with measures to mitigate the risks to the medium-term outlook, would have permitted

⁷ The first, second and third reviews under the PRGF arrangement were successfully completed in November 2006, June 2007, and January 2008, respectively.

⁸ Furthermore, the macroeconomic framework presented in the APR is only limited to 2007.

elaboration of more realistic growth projections than those presented in the Report. Staffs therefore encourage the authorities to develop in the next APR a revised medium-term framework that reflects these developments and related risks.

B. Poverty Reduction

9. **The APR presents poverty statistics derived from the 2006 Integrated Household Survey (EMICOV) which show that the incidence of monetary poverty stood at 37.4 percent.** Rural poverty incidence was estimated at 38.8 percent in 2006 as against 35 percent in urban areas. These data are notably different from the ones presented in the final version of the PRSP II⁹. Moreover, these data are not consistent with trends in GDP per capita, changes in income distribution and results from the perceptions of poverty survey. More fundamentally, reliable data on trends in poverty and inequalities are missing and, as a result, progress made in reducing poverty and the distributional impact of the PRS programs and policies are difficult to assess. For these reasons, staffs stress the need to address major methodological weaknesses and develop a strengthened new approach in order to establish more robust poverty statistics that are comparable over time. Staffs also urge the Government to accelerate implementation of measures to strengthen the national statistical capacity, including securing funding for the implementation of the National Statistics Development Strategy.

10. **Given that the sharp increases in world food prices will have important macroeconomic and distributional impacts and may undermine recent gains in poverty alleviation,** *staffs emphasize the need to analyze their short and long-term impact on the economy and the poor.* The analysis would help the Government identify the best policies to cope with the crisis with support from the donor community.

C. Progress in PRS policies and programs

11. The APR reviews progress made in implementing programs and policies under each of the strategic pillars of the PRS.

Policies to accelerate private sector-led growth

12. **The APR reports progress made in enhancing private sector participation and diversifying the economy to accelerate growth.** In particular, the Report notes: (i) the creation of the Presidential Investors' Council; (ii) the adoption by the Council of Ministers of the Development Policy Letter for the private sector; (iii) the preparation of a program to increase the productivity and the competitiveness of the Port; and (iv) identification of new clusters with high growth potential.¹⁰ However, staffs concur with the APR conclusion that these achievements are below initial expectations and that there is a need to accelerate implementation of measures in these key areas to achieve the PRS growth targets. In particular, staffs encourage the Government to: (i) accelerate land tenure reform; (ii) make the one stop shop at the port operational and complete the computerization of

⁹ In the PRS, rural poverty incidence was estimated at 40.6 percent while urban poverty incidence was estimated at 27.2 percent.

¹⁰ These are: transports and services, cotton and textile, agribusiness, tourism and handicrafts, public work and NTIC.

transactions; (iii) streamline business regulations to reduce the time and cost to do business in Benin; and (iv) implement the financial sector strategy. In addition, after the identification of the new sources of growth, practical plans which would help to address the identified growth constraints in each cluster would need to be implemented. In particular, the next Annual Progress Report (APR) could clarify how the Government would address the main bottlenecks to the development and diversification of agriculture, such as high costs and low quality of infrastructure services, weak technology and knowledge base, and low quality of agricultural products. Accelerating growth and strengthening competitiveness will require reliable and cost-effective supply of electricity, improved transport infrastructure, and accessible telecoms services.

13. **Staffs welcome the Government's strong commitment to improve the infrastructure services, in particular in the transport, energy and water sectors, to accelerate growth and strengthen economic competitiveness¹¹.** Staffs commend the authorities' efforts to expand the road network, to resolve the energy crisis and improve the coverage and access of rural populations to safe water and sanitation. However, as the APR rightly emphasizes, these efforts were not sufficient to meet the performance outcomes of the sector. Consequently, staffs agree with the APR that stronger actions would be needed to enable the sector to play its key role of reducing constraints to growth in all productive sectors. Staffs encourage the authorities to: (i) prepare an operational plan for the implementation of the transport strategy adopted in 2006; (ii) complete the restructuring program for the National Electricity Distribution Company, SBEE; (iii) strengthen the regulatory environment of the sectors; and (iv) enhance private sector participation in efforts to meet the investment and managerial needs which are critical to improving Benin's infrastructure services. Moreover, given the recent slowdown in the reform momentum, it is recommended that the Government lay out a clear and realistic timetable for implementing efficiency-enhancing strategies for key economic sectors. In particular, staffs urge the authorities to complete the new strategy for the cotton sector and ensure its swift implementation.

Policies to strengthen human development

14. **The APR states that significant progress has been achieved in improving social indicators but acknowledges that, at current trends, many of the MDG would be difficult to meet.** To accelerate these trends, pursuit of ongoing core reforms and increased improvements in access and quality will be needed. The APR notes that Benin is likely to meet one of the targets for MDG1, namely that of eliminating hunger, as well as the universal primary education goal (at least for boys) and the MDG for rural water supply. But the MDG targets for the health sector and gender would be difficult to achieve without substantial progress. Staffs emphasize that enhancing economic growth, further strengthening of the country's implementation capacity as well as financing remain the key challenges to meeting the MDGs.

15. **The APR reports an improvement of the performance outcomes in basic education but notes that some important issues remain.** Growth enrollment in primary education increased from 95 percent in 2004-05 to 98 percent in 2006-07 while the completion rate rose from 49 percent to 66 percent over the same period. Gender disparities have also been reduced, particularly at the primary level, though indicators for girls are still lagging behind those for boys. The teacher-student ratio is improving (from 55 students to 48 per teacher) and the repetition rate has been significantly reduced

¹¹ Infrastructure projects are mainly financed by external grants and credits.

from 22 to 10 percent. Despite these achievements, improving the quality of education and the management of the sector remain key challenges. Of particular importance would be actions to address the low level of student learning achievements and the need for greater efficiency at the secondary and higher education levels. In this regard, the recent decision by the Government to make higher education free risks absorbing limited public resources needed for basic education.. In addition, staffs recommend that higher education and vocational training be better targeted to the skill needs of the economy. Staffs welcome the adoption of the ten-year education plan by the Government and its endorsement by the EFA/FTI. The Fast-Track Initiative Partnership will support the achievement of the Millennium Development Goal of Education for All, help strengthen the institutional environment of the education sector, and improve the quality of primary education. Staffs encourage the authorities to take the remaining steps to ensure a rapid implementation of the FTI-supported program and to pay close attention to reduce disparities and improve quality.

16. **The Report frankly points out the degradation of the health indicators but does not examine the reasons for the deterioration.** The Report could usefully discuss: (i) weak sector management; (ii) poor quality services; and (iii) insufficient collaboration with the private sector. However, key positive steps have been recently taken by the MoH to improve the performance of the sector, including reviewing and prioritizing its existing policies. While staffs welcome these positive developments, they urge the Government to take the critical remedial measures that would bring about significant improvements in the performance of the health system. In particular, staffs encourage the authorities to develop an HR development policy focused on deploying more midwives and community health workers in rural areas and improve governance and performance in health systems through the rolling out of result-based financing mechanisms of health facilities and the promotion of public-private partnerships.

17. **The APR describes well the progress that has been made with regards to access to potable water supply, especially in rural areas, but lacks a detailed discussion on sanitation issues.** While Benin is in a position to meet the MDG rural water supply, reaching the sanitation goal would be very challenging even with sustained actions. The next APR could therefore discuss decisive measures which could lead to needed improvements and to ensure that Benin reaches this MDG, including substantial investments to extend the sanitation system.

Policies to promote governance

18. **The APR rightly emphasizes the importance of governance to economic development and reports on progress made in this area.** Staffs commend the authorities for the firm actions taken to combat corruption and promote governance, especially imposing systematic sanctions on known cases of corruption and fraud, limiting the execution of public expenditures without prior authorization, auditing key public companies and creating a control unit to coordinate all internal control functions. Staffs encourage the authorities to rapidly take the necessary steps for the revision of the national anti-corruption strategy and the preparation of an action plan which takes into account recommendations from the results of the survey on governance and corruption completed in June 2007 and the dissemination workshops held in January 2008, as well as the definition of the coordination mechanisms for implementation, monitoring and evaluation. The Report highlights the importance of strengthening civil society participation in the fight against corruption but fails to identify concrete actions towards this objective. While staffs welcome Government plans to include civil society representatives in the technical committee to revise the national anti-corruption strategy; they stress the need to build a stronger partnership and dialogue with civil society on governance issues.

19. **The APR would benefit from a more detailed discussion of the implementation of the administrative reform and the decentralization agenda and the plans of the Government in these two key areas.** With regards to the administrative reform, the Report lists a number of actions that were to be taken in 2007 but did not analyze the progress and the lack thereof made over the last months. As a result, it does not assess the main obstacles hindering the implementation of the reform and the measures to address them. Staffs recommend that the next APR discuss more comprehensively these issues, especially how the Government intends to strengthen the institutional capacity of the MRAI to fulfill its mandate and infuse a new momentum to the public service reforms, particularly the performance-based HR management system. Discussions of the decentralization agenda is almost absent from the APR despite explicit recognition that it constitutes a critical instrument for implementing the poverty reduction strategy. The next APR could benefit from a thorough discussion of key developments and challenges regarding the decentralization process. In particular, staffs encourage the Government to establish a clear and sound fiscal decentralization framework as well as the capacity building program needed to accompany the transfer of competences and resources to local governments. Staffs welcome the creation of the new Ministry of Decentralization and Local Governments and the organization of the Decentralization Forum held in January 2008 which constitute decisive steps in giving a new impetus to the decentralization process.

20. **Staffs note that the implementation of the Government's ten-year Integrated Program for the development and modernization of Benin's legal and judiciary systems continues to advance slowly, while there have been some delays in completing budget audit reports which limit accountability and transparency.** Staffs recommend to review the implementation of the justice reform program and taking the necessary corrective actions, including measures to address the weak internal capacity, lack of coordination and chronic insufficiency of funds. Staffs also consider that a strengthening of the external financial oversight body (financial and technical) is urgent given the continued backlog.

21. **Staffs note that implementation of the PRSP priority programs was hampered by capacity constraints.** Strengthening the institutional and technical capacity of both the central and line ministries is essential to the attainment of the PRS objectives. The APR has identified some of the weaknesses that led to low budget execution rates¹² but did not discuss the priority measures the authorities plan to take to improve the outcomes in this area. Staffs recommend the pursuit of the overall reforms in public expenditure management, while making a special effort to strengthen implementation capacity. Priority measures to address capacity constraints could include the recruitment of additional qualified staff in key technical positions, including procurement specialists in line ministries and the National Directorate for Public Procurement, and tailored training in PFM and project management and planning for targeted technical staff. In addition, streamlining of the current budgetary procedures could facilitate budget execution while preserving the quality of spending and enhancing accountability in the use of public resources.

¹² The Report cites the limitation of the use of exceptional procedures and a closer monitoring of fiscal revenues and expenditures by the Treasury committee.

Policies to promote equitable development

22. **Staffs welcome the PRS new approach to promoting balanced and sustainable development and concur with the objectives of this strategic pillar which are to promote greater territorial equity and sustainable management of natural resources.** However, staffs believe that this spatial development approach would be more efficient if it were more closely linked to the decentralization process. Indeed, a devolved and efficient public administration to support local governments would be needed to make this strategy more operational. To achieve this objective, the main obstacles to the implementation of the decentralization agenda and the devolution process need to be addressed as detailed in paragraph 19.

III. MONITORING AND EVALUATION

23. **The APR describes clearly how weaknesses in the monitoring and evaluation (M&E) framework identified in earlier JSANs have been addressed and improvements made in the M&E framework for the PRS implementation.** Building on the assessment of the M&E mechanism for the first PRS, the revised framework establishes a simplified system which gives greater responsibility to the sector ministries and the central statistical production units and strengthens the synchronization between the technical and administrative monitoring. It also defines mechanisms that would lead to better coordination of actions and synergy between the stakeholders involved in the monitoring and evaluation of the PRS. Finally, during the preparation of the PRSP II, the Government broadened the set of monitoring indicators, and prepared a detailed Priority Action Plan (PAP) which establishes a sound monitoring and evaluation framework for assessing progress under the strategy.

24. **The APR notes that, despite the improvements mentioned above, some problems remain and need to be addressed to achieve a more efficient system.** These include the functioning of the departmental and local levels of the M&E institutional framework and the continued lack of reliable data for a number of indicators, including poverty statistics. As recommended in the joint staff advisory note of the PRSP II, staffs underline the need to improve the availability and quality of data and to strengthen the national statistical system to ensure an effective monitoring of the implementation of the strategy. To this end, the preparation of the national statistical development strategy constitutes a good opportunity to help to put in place a mechanism for the regular and systematic collection of data for the PRSP M&E indicators. Staffs also encourage the authorities to take the critical steps to reinvigorate the departmental and local monitoring committees as well as to strengthen participation of key stakeholders (in particular civil society and beneficiaries) in the M&E of the implementation of the strategy.

IV. CONCLUSIONS

25. **Staffs concur with the conclusion of the APR that progress in implementing the PRS in 2006 and early 2007 was uneven.** On the positive side, the Report notes that macroeconomic stability has been maintained despite significant external shocks, and the fiscal position strengthened. It also points out that some social indicators have improved, especially in the education and water sectors. Despite these achievements, the APR acknowledges that economic growth was weaker than targeted under the PRS, and that gains in reducing poverty have been limited. Furthermore, it notes that, at current pace, Benin is unlikely to meet most of the MDGs.

26. **Staffs have identified key areas where PRS implementation could be strengthened and they encourage the Government to expeditiously implement the remedial actions to alleviate the major constraints to the implementation of the strategy.** In particular, staffs encourage the authorities to:

- (i) strengthen implementation and absorption capacity;
- (ii) improve regulations to build a business-friendly environment and promote private sector development;
- (iii) strengthen national statistical capacity to ensure a more effective monitoring of the implementation of the strategy; and
- (iv) speed up the implementation of structural and governance reforms.